GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

UNSTARRED QUESTION NO:3834
ANSWERED ON:13.12.2002
CLOSING OF MANUFACTURING ACTIVITIES OF MNCs
NITISH SENGUPTA

Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

(a) whether the Government attention has been drawn to the fact that most of the multinational companies operating in India have now taken to a policy of closing down their manufacturing activities in India and serve the Indian markets with goods imported from their factories in countries like China, Taiwan, Korea, Malaysia and Singapore where manufacturing cost is much cheaper;

(b) if so, the corrective steps being taken by the Government to redress this state of affairs;

(c) whether the Government intend to take long-term measures in relation to allowing such companies manufacturing facilities in special zones, where our unproductive labour laws and excise duties will not apply so as to reduce their manufacturing costs; and

(d) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE AND INDUSTRY (DR. RAMAN SINGH)

(a) & (b) : Investment decisions of multinational companies (MNCs), including those relating to change in activities, are dependent on several factors such as global competitive advantages, business/marketing fundamentals, corporate restructuring/strategies, etc. The Government, on its part, provides a competitive, liberal and transparent policy regime, wherein foreign direct investment upto 100% is permitted under the automatic route in almost all activities, including manufacturing activities, except for a few sectors wherein caps are imposed on strategic and sectoral considerations. Proposals for change in activity are considered by the Government in terms of the extant FDI policy.

(c) & (d) : Government has also introduced a Special Economic Zones (SEZ) Scheme in April, 2000 with a view to provide an internationally competitive and user-friendly environment for exports. Under SEZs, units may be set up for manufacture, trading, reconditioning, repair or service activity. FDI upto 100% is allowed through the automatic route for all manufacturing activities in Special Economic Zones (SEZs), except for a few sectors critical to strategic, defence, environmental or health concerns.The entitlements to units in SEZs include :

- duty free import/procurement of capital goods, raw materials, consumables, spares;

- 100% income-tax exemption for 5 years and 50% exemption for 2 years thereafter;

- domestic sales on full customs duty subject to import policy in force;

- full freedom for subcontracting;

- facility to retain 100% of foreign exchange receipts in Export Earners Foreign Currency (EEFC) Account;

- exemption from Central Sales Tax on sales made from domestic tariff area to SEZ units;

- facility to set up offshore banking units in SEZs.